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FOR THE SECRETARY OF COMMERCE FROM THE AMBASSADOR

TAGS: [ETRD](#) [ECON](#) [EINV](#) [KCOR](#) [PGOV](#) [SOCI](#) [VM](#)  
SUBJECT: VIETNAM SCENESETTER FOR COMMERCE SECRETARY CARLOS  
GUTIERREZ'S NOVEMBER VISIT

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11. (U) Your visit, coming almost one year after President Bush's, is well timed to press Vietnam to continue its rapid pace of opening to the world. The national leadership remains eager to learn from the United States on economic matters, and will be attentive to what you have to say. Your visit will also underscore the high level of attention the private sector and the USG are paying to the development of Vietnam as an investment destination and as an export market for U.S. goods and services. The media here is signaling a warm welcome, and your visit will resonate favorably here.

VIETNAM'S EAGERNESS TO PROVE ITSELF AS THE NEXT TIGER  
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12. (U) Mission Vietnam very much looks forward to your visit to Hanoi and Ho Chi Minh City from November 4 to 8, as your personal engagement will directly support our important, broad-based efforts to influence developments in this increasingly important country. After decades of isolation and failed economic policies, Vietnam is determined to catch up with the Asian tigers. The government of Vietnam (GVN) aims to achieve the ranks of middle-income developing countries by 2010 and to be an industrialized country by 2020. In its efforts to modernize the economy, the GVN has focused on pushing exports and investment as key drivers in its policy of fast economic growth to reach its goals.

13. (SBU) When Vietnam started its "doi moi" (renovation) program of economic reforms in 1986, the economy was in shambles and the vast majority of the population lived in poverty. Vietnam's economic reforms have set the country on a successful market economy path demonstrated by average annual economic growth of 7.5% during the last decade. This year the economy is growing at a rate of 8.5%. Poverty rates have tumbled from 58% in 1993 to under 14% in 2006, according to the GVN's latest figures. A recent World Bank study described this poverty reduction rate as the most significant in such a short period of time of any nation in history. The middle class is growing and retail markets are booming.

The U.S. AS A KEY PLAYER  
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14. (SBU) The IMF reports that, from 1993 to 2006, Vietnam's exports as a percentage of world imports quadrupled. Since 2003, the United States has been Vietnam's largest export market with purchases of \$8.5 billion of Vietnamese goods in 2006, and already \$6.9 billion in the first eight months of 2007. According to Vietnam's statistics, the United States is the seventh largest investor in Vietnam with \$2.6 billion in registered FDI since 1988 (South Korea is the largest with \$11 billion). According to a 2007 study, however, "U.S.-related investment" would be at least \$2 billion more if one counts investment via overseas U.S. subsidiaries. For

example, normal FDI accounting methods credit Intel's recent \$1 billion investment not to the United States but to Hong Kong because it was conducted from the chip maker's subsidiary there. By any measure, we are the big player here as both Vietnam's most important export market and a substantial source of investment.

15. (SBU) What many don't realize is that, over the past decade, the United States has also been a key player in helping Vietnam implement its policy decision to choose markets over central planning. The Bilateral Trade Agreement (BTA), which entered effect at the end of 2001, helped set the stage for Vietnam's successful accession to the WTO on January 11, 2007. The business community and the Vietnamese people welcomed these milestones as providing further opportunities for developing the economy. Individual elements of Vietnam's implementation of its WTO commitments have had some problems, such as on IPR as well as some questions on trading rights, but overall it has been proceeding on track.

#### CHALLENGES: SKEWED GROWTH, INFLATION, BLOATED STATE SECTOR

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16. (SBU) Despite these achievements, Vietnam still faces substantial challenges. For example, while per capita GDP rose to \$728 in 2006, the benefits of economic growth have been skewed in favor of the urban areas. Income disparity between the haves and have-nots is growing. Over 20% of children under age five still suffer from malnutrition. Corruption continues to be a problem in Vietnam, and Transparency International's perception index ranks Vietnam at 123 of 179 countries, a continuous backsliding since 2002.

17. (SBU) Inflation is another problem, and prices have increased during the last several months, measuring 8.8% year-on-year in September 2007. The GVN has taken some steps to limit price hikes, such as reducing some import tariffs and subsidizing fuel prices by as much as 30%, but these have not stemmed the steady rise. Another issue is the size of Vietnam's state sector. It accounts for about 37% of GDP and includes state-owned enterprises (SOEs) that dominate in key sectors such as banking, energy and airlines. While the GVN

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works to attract more FDI and promote the domestic private sector, it also intends to maintain a major role for the state sector in the economy. For now, the government is focusing on a process known as "equitisation" as way to help improve the competitiveness of the state sector. By allowing private parties to buy shares of an SOE, even if less than a controlling share, the government hopes that this will force the companies to perform better. There have been delays in equitising more SOEs, as well as state owned commercial banks (SOCBs).

#### RELATIONS WITH THE UNITED STATES - TRADE AND AID

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18. (U) Despite our fractious history, Vietnam and the United States are forging closer ties each day. Vietnam's motivation to seek stronger ties is clear. As noted above, we are Vietnam's largest market, and one of its closest trading partners. The GVN also sees the United States as a critical source of financial and technical assistance. Hanoi also increasingly sees the United States as an important force in maintaining a stable regional environment and balancing a rising China. For our part, Vietnam provides for us an important opportunity in East Asia for advancing U.S. national interests in securing a stable and peaceful Asia-Pacific region. We are also encouraged by the steady liberalization of the government's role in the life of its citizens. Problems remain, as noted below, but all agree that basic trends are positive with regard to personal freedoms, when viewed over time.

19. (U) For these reasons, over the past ten years Washington has very effectively invested limited aid dollars to support Vietnam's transition to an open market economy by strengthening trade liberalization, particularly the reforms needed to implement the commitments under the BTA and WTO. Two of our programs, Support for Trade Acceleration ("STAR") and the Vietnam Competitiveness Initiative, support Vietnam's efforts to create an internationally-driven, open private sector economy and the legal

framework to govern that. The STAR team has been involved directly the overhaul of Vietnam's civil procedure code, new investment laws providing for equal treatment of state-owned and private companies, a securities law to help develop Vietnam's capital market, protecting intellectual property rights, and numerous other projects to shore up greater transparency, rule of law, and civil society.

¶10. (U) Eighty five percent of all U.S. Official Development Assistance to Vietnam focuses on health issues, and our cooperative efforts to prevent and treat HIV/AIDS and combat Avian Influenza are the hallmarks of our bilateral health relationship. Vietnam will receive approximately \$88 million in PEPFAR funding in FY2007 aimed at preventing new infections, providing care to 40,000 persons, including orphans and vulnerable children, and support anti-retroviral treatment for 9,000 patients. Our target is to support treatment for 22,000 HIV-infected persons by September ¶2009.

¶11. (U) U.S. Avian Influenza-related assistance has totaled nearly \$23 million over the past three years and has focused on strengthening emergency preparedness, building veterinary laboratory capacity, animal vaccination campaigns, animal surveillance and response, and public awareness. Approximately \$4 million of FY2007 USAID funding will go to continuing vaccination programs, assist health surveillance, and farmer and general population education and best sanitary practices.

¶12. (U) The Department of Energy's National Nuclear Security Administration assisted Vietnam last September to convert its only civilian research nuclear from high to low enriched uranium fuel, and will assist Vietnam to develop the necessary physical and regulatory safeguards to establish a civilian nuclear power sector.

¶13. (U) The current indications from the planning figures in the FY2008 and FY2009 budgetary process is that USAID will be in a position to expand its assistance, especially in the areas of economic growth and reform. Given the expansion of the program and in recognition of the growing development relationship between the United States and Vietnam, in 2008 USAID in Hanoi will become a full stand-alone USAID presence mission.

#### LITTLE PROGRESS ON HUMAN RIGHTS -----

¶14. (SBU) As you know, we have repeatedly expressed our strong concerns over Vietnamese actions to suppress peaceful political dissent. We also have greatly stepped up our diplomatic efforts by pointing out to contacts, and through a variety of media, that imprisoning people for merely expressing political views and labeling political dissidents "terrorists" is injurious to relations with the United States. This message was most recently reinforced during the Ambassador's initial calls on a host of GVN officials,

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which echoed the message President Bush gave to President Nguyen Minh Triet in the White House last June.

¶15. (SBU) Earlier this year, Senator Patrick Leahy wrote to President Triet and suggested greater bilateral cooperation in the areas of good governance, anti-corruption and rule of law. Senator Leahy's views reflect those of a number of senior lawmakers, many of whom have been strong supporters of engagement though programs of capacity building, technical assistance and exchanges. Deputy Prime Minister and Foreign Minister Pham Gia Khiem responded positively to the Leahy letter. We believe that your visit could provide a good opportunity to extract explicit GVN buy-in towards greater cooperation in these areas. By ensuring that any public remarks underscore our shared commitment to further engagement on these issues, we can frustrate efforts of those in Vietnam intent on torpedoing the deepening U.S.-Vietnam relationship.

#### PROGRESS ON RELIGIOUS FREEDOM -----

¶16. (SBU) In spite of the arguments of some linking the recent crackdown on dissidents to a rollback of progress on religious

freedom, we can unambiguously state that religious freedoms for Vietnam's people continue to improve. This progress has included: registering and recognizing a number of churches, congregations and denominations; freeing all the individuals whom we believed were imprisoned for religious reasons; and, promulgating and implementing a new framework on religion. Some previously troublesome provincial areas, such as the Central and Northwest Highlands, have also showed distinct signs of improvement. For example, Christmas services were reported to have gone well in these two areas. The evidence here continues to support Washington's decision last year to lift Country of Particular Concern status for Vietnam. Your visit can serve to underscore the importance of Vietnam staying the course, especially as the U.S. Senate prepares to put Vietnam's human rights and religious freedom practices under the microscope.

#### VIETNAM'S INTERNATIONAL PROFILE

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¶17. (SBU) Vietnam will serve as a non-permanent member of the UNSC during the 2008-2009 term. We have made clear that with a stronger international role also comes a responsibility to take a stand on certain issues of global concern. To date, Vietnam has not yet spoken out about Iran, Burma or North Korea, and we have been encouraging the GVN to stake out a more proactive stance on these and other matters. In this regard, the GVN's (relatively) critical statement of the DPRK's nuclear test last October was a welcome step in the right direction.

#### FULLEST POSSIBLE ACCOUNTING

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¶18. (SBU) We continue to enjoy good cooperation with the Vietnamese in the fullest possible accounting of our personnel missing from the war, but there are a number of issues in which we would like to see more progress, including underwater recovery operations and archival access. We would appreciate if you could thank your interlocutors for Vietnam's continued cooperation to date and express the USG's hope for further assistance in the future.

#### HANOI: THE SEAT OF POWER

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¶19. (SBU) The Government of Vietnam remains extremely centralized in Hanoi. It has promoted decentralization, but the pace has been slow. For years, Hanoi and the north played second fiddle to the booming south, but the gap has closed. Hanoi has attracted \$11 billion in investment since 1988, compared to \$15 billion in Ho Chi Minh City, the former Saigon. So far this year, five of the top ten provinces attracting investment are from the north or center of the country, including a \$5 billion project near Hanoi announced this summer by Taiwanese electronics-maker Foxcon.

#### HO CHI MINH CITY: LABORATORY AND ENGINE OF GROWTH

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¶20. (U) Demographics, local culture and even official GVN policy combine to ensure that Ho Chi Minh City (HCMC) serves as the cradle of experimentation and innovation in Vietnam's rapidly opening economy. Whether via new products brought in by joint ventures targeting HCMC's emerging middle class or industrial zones experimenting with new strategies to leverage capital to grow small-to medium-sized enterprises, the city is a bellwether for reform trends throughout Vietnam. While Vietnam's impressive 2006 8.2% growth was the second fastest in Asia, HCMC bounded ahead at 12.2%, and the city's per capita income (\$2,200) was triple the national average.

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¶21. (U) Dynamic, outward-looking local business leaders who have risen to prominence through business acumen rather than political affiliations now dominate most sectors of the HCMC business environment. The positions of this new class of business magnates on key issues such as the importance of strict adherence to the rule of law, greater transparency in decision making and the proper role of the government in economic spheres are generally in sync with

those of U.S. and other international business persons active in Vietnam.

¶22. (U) The government and business leaders that you meet are eager to maintain this growth, and will look to your delegation for practical approaches to increasing U.S. trade and investment. Meeting basic international labor standards, including the right to form independent trade unions, would likely improve the function of labor markets. The GVN maintains a tight grip on communication infrastructure and technology-intensive companies complain that lack of internet capacity affects business activities and investment plans. HCMC and the surrounding provinces that make up Vietnam's "Southern Economic Focus Zone" also suffer from an opaque decision making process.

¶23. (U) The U.S. business community remains concerned over the U.S. apparel monitoring system (Assistant Secretary Spooner's September visit to HCMC drew more than a hundred local companies), our \$8.5 billion trade deficit with Vietnam, market access for U.S. firms, and lack of GVN (central and local) support for major U.S. projects or sales.

#### A WORD ON CHINA

¶24. (SBU) The China dynamic is of obvious importance to Vietnam, and there is an understandable competitive flavor to Hanoi's ties to Beijing and Washington. Far from trying to manipulate its two huge "partners," however, Vietnam -- understanding its relative power -- seeks to balance its ties with each. With recent heightened tensions with China over sovereignty issues, and with us over human rights, Hanoi's task is at present not an easy one.

#### CONCLUSION

¶25. (U) Again, I warmly welcome your visit. It will prove critical in promoting further economic reforms, signaling our desire to invest and expand markets for our exports and thus the future course of bilateral relations.

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